



Legislative Audit Division

State of Montana

Report to the Legislature

November 2002

Information System Audit

Statewide Accounting, Budgeting and Human Resource System (SABHRS)

Department of Administration

This report provides information regarding application controls over the state's enterprise computer system, and general controls over the related processing environment. It contains one three-part recommendation to update SABHRS Unemployment Insurance rates, credit UI overpayments to state agencies, and ensure timely rate updates.

**Direct comments/inquiries to:
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03DP-02

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Information System (IS) audits conducted by the Legislative Audit Division are designed to assess controls in an IS environment. IS controls provide assurance over the accuracy, reliability, and integrity of the information processed. From the audit work, a determination is made as to whether controls exist and are operating as designed. In performing the audit work, the audit staff uses audit standards set forth by the United States General Accounting Office.

Members of the IS audit staff hold degrees in disciplines appropriate to the audit process. Areas of expertise include business, accounting and computer science.

IS audits are performed as stand-alone audits of IS controls or in conjunction with financial-compliance and/or performance audits conducted by the office. These audits are done under the oversight of the Legislative Audit Committee which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of six members of the Senate and six members of the House of Representatives.

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November 2002

The Legislative Audit Committee
of the Montana State Legislature:

This is the report of our information system audit of controls relating to the state's central computer system operated by the Department of Administration. We performed a limited review of general and application controls over the Statewide Accounting, Budgeting and Human Resource System. This report contains recommendations for improving controls related to the system and department procedures. Written responses to our audit recommendations are included in the back of the audit report.

We wish to express our appreciation to the department for their cooperation and assistance.

Respectfully submitted,

(Signature on File)

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Information System Audit

Statewide Accounting, Budgeting and Human Resource System (SABHRS)

Department of Administration

Members of the audit staff involved in this audit were Debra Blossom, Charles Nemec, David P. Nowacki, Ida L. Sajor, Jessie Solem, and Victor C. Valgenti.

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Martha Watson
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Executive Summary

We conduct an annual review of the Statewide Accounting, Budgeting and Human Resource System (SABHRS). SABHRS provides the State of Montana with an enterprise system for managing budget development, financial and human resource information. SABHRS is used by all state agencies to account for and report the use and disposition of all public money and property in accordance with state law. The state has completed its third fiscal year-end under the SABHRS system.

Our objective is to provide reasonable assurance that controls exist to ensure data acquired from the agencies (via on-line or electronic transmission) is properly processed and recorded, as well as, appropriately secured from unauthorized or unnecessary access.

To ensure whether our control objectives were met, we evaluated whether access to data and system processing is controlled, whether processing is controlled to allow valid data to process while capturing invalid data, and whether system processing additions or modifications are tested and controlled. We evaluated system tables, processing rules, and reports to determine whether tables contained correct data and reports containing processing results are reasonably constructed and tested to provide accurate information to users.

Through interview, observation and review, we evaluated the general controls environment over SABHRS, including security access and the implementation status of the five prior audit recommendations. Three recommendations have been implemented; two recommendations related to a comprehensive security plan and retention of an audit trail are partially implemented.

The current report identifies specific control testing performed, the testing methodology and the test results. Overall, except as discussed in Chapter Three, SABHRS operates as intended and processing is in compliance with state statute, applicable law, state policies and procedures.

Executive Summary

We determined SABHRS contained incorrect unemployment insurance rates, causing the state agencies to overpay UI by approximately \$127,000 over the past three years. The result is a three-part recommendation to:

- ▶ Acquire and install current UI rates.
- ▶ Work with Department of Revenue to credit UI overpayments to the overcharged agencies.
- ▶ Develop procedure to ensure timely updates of rates.

As discussed in Chapter Two, using the Internet, in six minutes we were able to find the information necessary to determine vendor password settings allowing us unauthorized access to the production database. We identified open access to the intermediary file used for the payment file transfer, increasing the risk of unauthorized modification. We identified inappropriate security access for specific individuals. Upon notification, management implemented immediate changes for the issues identified.

Chapter I - Introduction and Background

Introduction

The Statewide Accounting, Budgeting and Human Resource System (SABHRS) is the State of Montana enterprise system for managing budget development, financial and human resource information. SABHRS is used by all state agencies to account for and report the use and disposition of all public money and property in accordance with state law. The state of Montana has just completed the third fiscal year-end under the SABHRS system.

Currently, the SABHRS Services Bureau (SSB), organized within the Department of Administration's Information Technology Services Division, is responsible for system maintenance, security and management of daily production operations. The Department of Administration's State Personnel and Administrative Financial Services Divisions operate the SABHRS applications. State agencies are responsible for accurately entering their data into SABHRS.

SABHRS Finance and Human Resource System Background

SABHRS processing is a combination of commercial software and customized modifications to meet Montana's needs. SABHRS components include three applications, the Finance System (FI) the Human Resource Management System (HRMS) and the Montana Budget Analysis and Reporting System (MBARS). We did not include MBARS in our audit scope because MBARS is the system used to develop the budget, while the actual budget is accounted for on the Finance Systems.

FINANCE SYSTEM

Currently, Montana is operating under version 7 of PeopleSoft financials. Finance is its own database and is comprised of five modules: Accounts Receivable, Accounts Payable, Purchasing, Asset Management, and General Ledger.

Accounts Receivable processes and records revenue collections and aids in the bank reconciliation process. Currently, state personnel use this module for maintaining customers, entering items, entering payments/deposits, and applying payments.

The **Accounts Payable** module manages cash disbursements. Accounts Payable integrates with three other modules: General Ledger, Asset Management, and Purchasing. In order to create

Chapter I - Introduction and Background

warrants, agencies must enter vouchers or interface payment files into the Accounts Payable module.

The **Purchasing** module provides automation of the business processes for the procurement of goods and services. The primary user of this module is the state's General Services Division, Print Services Bureau. We did not review the Purchasing module functions.

The **Asset Management** module accounts for state property. Depreciation is calculated and recorded to the appropriate ledger(s) in accordance with state policy.

The **General Ledger** module stores balance sheet, revenue and expenditure activity for agencies while separately identifying agency financial activity. Functions include journal entry, budgeting, account inquiry, and reporting.

The state plans to upgrade the financial database in November of 2003. PeopleSoft Version 8.4 for Finance is a web-based application. Users will access the software utilizing an Internet web-browser.

HUMAN RESOURCE MANAGEMENT SYSTEM (HRMS)

Currently, Montana is operating under version 7.5 of PeopleSoft Human Resource Management. HRMS is its own database comprised of four modules: Human Resource, Benefits Administration, Time and Labor, and Payroll.

The **Human Resource** module is the core of HRMS, maintaining all state employee personal, job, and employment information.

The **Benefits Administration** module defines the eligibility and enrollment rules for benefits, such as leave, medical and discretionary benefits for each employee. We did not review the Benefits Administration module.

The **Time and Labor** module processes all employee time entry, including electronic time entry, processes to validate time, and leave balance information.

The **Payroll** module provides real-time data editing and validation that contains the batch processes that calculate payroll and create the print file.

Montana plans to upgrade the HRMS modules to version 8.3 by the end of the second quarter of 2003.

Chapter I - Introduction and Background

Report Organization

Chapter one of the report provides background information on the SABHRS system and the modules comprising the system. This report is intended to address the needs of various SABHRS users; for example, financial-compliance audit will rely on this work for assurance to facilitate their audit processes. Chapter two discusses specific general controls, including access rights to system resources, and chapter three includes specific application level discussion.

Audit Objective

SABHRS supports the core administrative processes used by all state agencies to account for and record the financial and human resource data; therefore, we perform an annual review of the SABHRS control environment. Our objective is to provide reasonable assurance that controls exist to ensure data acquired from state agencies (via on-line or electronic transmission) is properly processed and recorded, as well as, appropriately secured from unauthorized or unnecessary access.

Audit Scope and Methodology

The audit was conducted in accordance with Government Auditing Standards published by the United States General Accounting Office (GAO). We evaluated controls using generally accepted information technology governance and control practices provided by the GAO and the Control Foundation's Control Objectives for Information and Technology (COBIT).

To ensure whether our control objectives were met, we evaluated whether access to data and system processing is controlled, whether processing is controlled to allow valid data to process while capturing invalid data, and whether system processing additions or modifications are tested and controlled. We evaluated system tables, processing rules, and reports to determine whether tables contained correct data and reports containing processing results are reasonably constructed and tested to provide accurate information to users.

Through interview, observation and review, we evaluated the general controls environment over SABHRS, including security access and the implementation status of the five prior audit recommendations.

Chapter I - Introduction and Background

Prior Audit Recommendations

The previous SABHRS audit report (02DP-02) included five recommendations to the department for improving general and application controls. We recommended:

IMPLEMENTED

- ▶ SSB and State Personnel Division define and formally document the roles and responsibilities of maintaining HRMS data.
- ▶ SSB continue to document and test a comprehensive disaster recovery plan for the SABHRS applications.
- ▶ SSB develop written SABHRS production recovery procedures.

PARTIALLY IMPLEMENTED

- ▶ SSB develop and implement a comprehensive security plan over the SABHRS environment.

SABHRS security plan is in draft format. SSB staff has made progress in developing a plan and are working to integrate SABHRS security with the overall plan for information security. However, not all elements of the recommendation are addressed. United State General Accounting Office and information industry best practices state that security plans should include periodic management assessments to ensure the plan continues to cover new security risks occurring since the plan was developed. Also, best practices are that management monitor and tests the plan's effectiveness so that weaknesses and oversights can be detected and changed.

- ▶ SSB develop and retain audit trails for data and processing changes.

An audit trail does not exist for all SABHRS processes. Audit trails provide evidence of successful processing or descriptions of the events occurring when processing is unsuccessful. An audit trail has the details of who or what caused a problem, the changes made to remedy the problem, and the result of the changes. Audit trails are critical evidence necessary to determine changes are appropriate. SSB staff has developed guidelines describing the conditions requiring changes, authorizing access for changes, and suggested documentation and review requirements. SSB is exploring the possibility that SABHRS system tools can provide an audit trail. However, since no automated audit trail is being created independent of self-

Chapter I - Introduction and Background

reporting, we determined the prior audit recommendation to be partially implemented.

Chapter II - General Controls

Introduction

General Controls include management developed plans, policies and procedures applied to the SABHRS environment to assure controlled operation of SABHRS hardware and software.

Overall, except as discussed in chapter three, SABHRS controls exist to ensure data is processed and recorded as intended. However, we identified inappropriate security access and upon notification, SSB implemented immediate changes for the individuals identified.

Finance and Human Resource Database Access

Access controls prescribe who has access to what specific system resource and also the type of access that is permitted. Our access control testing included the following.

Finance Database Access

Test: Finance database access is limited to appropriate users.

Method: Extract finance database access accounts and review for blank or generic accounts indicating unidentified users with database access. Identify accounts with access to change programs and data. Compare accounts to SSB policy to ensure only appropriate staff have this access.

Conclusion: No exceptions noted.

Due Diligence: We identified an active user account for an individual who no longer works as a temporary employee for the state. We notified SABHRS staff and they appropriately responded by working with the agency to promptly deactivate access.

—————

Test: Accounts Payable access to modify and approve vendor records is limited to appropriate users and prevents a person from both entering and approving vendor payments.

Method: Query database to identify users with inappropriate access to create a vendor and enter and approve vendor payment. Attempt to inappropriately enter and approve payments.

Chapter II - General Controls

Conclusion: No exceptions noted.

Due Diligence: During our access work, we reviewed standard system settings to determine that standard access settings are disabled or changed. Unchanged standard settings create a security risk to any system because standard setting details are available to the public. A knowledgeable person can exploit standard settings to gain unauthorized system access and then manipulate the system or data. One public source of standard settings is the Internet. We used the Internet to search for password information about PeopleSoft software settings. In six minutes we found the necessary information, allowing us to deduce a password for one of the standard settings. We used the password to create our own unauthorized access to the SABHRS production database. We notified SABHRS personnel and they appropriately responded by changing the password.

Operating System Access

Test: SABHRS operating system access and roles are restricted to appropriate staff; network and application settings are appropriate; and “startup jobs” are controlled and appropriate.

Method: Extract operating system files and review configuration and access details to ensure settings are consistent with best practices and SABHRS management description.

Conclusion: No exceptions noted.

Test: Database access and roles are restricted to appropriate staff, staff changes to the database are monitored, and the database is configured to ensure recovery.

Method: Extract database table contents and review staff and public access administrative roles and privileges; extract audit logs and review entries for staff changes to the database; and extract the database initiation file and review for active recovery settings.

Chapter II - General Controls

Conclusion: No exceptions noted.

Test: Access to UNIX and mainframe directories are restricted to appropriate individuals. Files that create state warrants are moved from the UNIX and mainframe directories after processing thereby preventing inadvertent duplication of payments.

Method: Extract user identifications with access to specific mainframe directories. Confirm user identifications are for individuals having responsibilities needing access. Observe warrant file management.

Conclusion: No exceptions noted.

Due Diligence: During our directory work, we identified an intermediary directory used for file transfer that was open to all operating system users. Since this directory is used for the payment file transfer, unauthorized users could create and insert their own warrant file or modify existing warrant files for creating warrants. We notified ITSD staff of the open access and they responded appropriately to restrict access to those individuals with responsibility for file transfer. In addition, ITSD staff performed a directory access review to ensure existing access is appropriate for additional directories.

HRMS Access

Test: Only employees with State Personnel Division (SPD) written approval are granted HRMS access to update their own employment data files.

Method: Query the HR database to identify individuals having access authority to update their own records and ensure exception is in accordance with SABHRS security plan.

Conclusion: We identified eleven individuals with access to update their own payroll records; however, four individuals do not have the

Chapter II - General Controls

required exception documentation granting them access to update their own records.

Discussion: Both the SABHRS Security Plan and the SPD instructions memo discourage allowing an employee the access to update their time records. However, both documents state that there are circumstances where an agency can request an individual be granted the ability to update their own records. Agency administrators must be willing to accept the risk associated with this access and must document accepting the risk. When that is the case, both SSB staff and SPD will allow the control to be suspended and will grant access permitting the individual the ability to enter and approve their time.

Due Diligence: We identified three terminated state employees who have access to SABHRS HRMS, with the ability to add an employee, enter, and approve time. We notified SABHRS personnel of the active access and they appropriately responded by working with the agency to terminate access.

Test: Access to the HRMS earnings table, holding the pay rates for all positions in state government, is restricted to appropriate individuals.

Method: Identify the operator classes having authority to modify the earnings table. Query the database to capture the users with operator classes capable of modifying the earnings table. Confirm users are limited to the appropriate SSB and State Personnel Division staff.

Conclusion: No exceptions noted.

Chapter III - Assurance Over Operations

Overall Processing

Overall, except as discussed below, SABHRS controls exist to ensure data is processed and recorded as intended. To substantiate processing of operations, we performed the following audit tests.

Asset Management

SABHRS Asset Management module maintains records of certain property acquired by the state. State policy requires agencies to calculate and record depreciation for assets that exceed certain threshold amounts. Testing included examining existing processes and changes due to new accounting requirements to ensure depreciation is calculated and recorded to the appropriate ledgers.

Test: Asset Management system modifications and records converted from prior SABHRS accounts and funds to new funds and accounts.

Method: Extract and review changes to Asset Management database processes and records to confirm changes are consistent with Accounting Bureau instructions and SABHRS management documentation.

Conclusion: No exceptions noted.

Test: Asset Management operates with the correct asset categories and definitions provided by Accounting Bureau.

Method: Extract the profile identifications and category definitions from the database and verify they are consistent with Accounting Bureau profiles and categories.

Conclusion: No exceptions noted.

Test: Asset Management accurately calculates depreciation.

Chapter III - Assurance Over Operations

Method: Extract the capitalization threshold amounts from the database and verify the amounts are consistent with state policy.

Conclusion: SABHRS cannot recognize multiple dollar threshold amounts for asset categories set by state policy.

Discussion: Depending on the asset category and the asset purchase amount, state policy requires certain assets to be expensed at the time of purchase or capitalized as a depreciable asset. Generally, assets costing less than \$5,000, building improvements costing less than \$25,000, or infrastructure costing less than \$500,000 are expensed. Assets costing more than these thresholds are capitalized. The current version of SABHRS can only account for one threshold amount for capitalizing assets and one threshold amount for expensing assets. As a result, SABHRS information users should be aware that no SABHRS control exists to enforce state policy for asset categories minimum or maximum amounts. The responsibility and control over properly classifying assets exist at the agency level. To assist agency personnel, SABHRS does have reports available to monitor asset activity so they can ensure assets properly post to Asset Management and General Ledger Accounts.

Due Diligence: We extracted and reviewed asset transactions to determine if assets costing more than \$5,000 were being expensed. There were 437 transactions in excess of the general \$5,000 threshold for capital items. We identified 27 transactions where asset costs were inconsistent with capitalization thresholds, and 58 transactions where transaction details did not agree with asset categories. We notified Accounting Bureau and they appropriately responded by investigating the transactions with the agencies.

Test: Asset Management transactions are recorded in the appropriate General Ledger accounts.

Chapter III - Assurance Over Operations

Method: Identify and extract Asset Management posting rules from the SABHRS database and confirm rules are consistent with Accounting Bureau instructions.

Conclusion: No exceptions noted.

Accounts Payable

The Accounts Payable module manages cash disbursement transactions. In order to create non-payroll warrants, agencies must enter vouchers or interface payment files into Accounts Payable.

Test: Validation edits exist and are applied prior to SABHRS accepting the data.

Method: Try to defeat the validation edits by creating on-line changes in voucher and vendor records.

Conclusion: No exceptions noted.

Test: Each SABHRS vendor identification number is unique.

Method: Query the SABHRS database to locate duplicate vendor identification numbers.

Conclusion: No exceptions noted.

Test: SABHRS has required data fields to ensure all vendor records are complete.

Method: Query the SABHRS database for required fields that are empty.

Conclusion: No exceptions noted.

Chapter III - Assurance Over Operations

Test: Inbound Accounts Payable files are screened for valid data.

Method: Extract and review code containing screening instructions to ensure duplicate files are not accepted for processing; file is formatted correctly, control totals are present; lines balance; and payment is greater than \$0 before accepting the file for SABHRS processing.

Conclusion: No exceptions noted.

Test: Payments are posting to the General Ledger.

Method: Extract modifications to PeopleSoft instructions for posting to ensure modifications do not affect validity of posting.

Conclusion: No exceptions noted.

Test: Voucher Status Report, Vendor Changes Report and voucher validation exception reports are operating to capture and provide error and change details.

Method: Examine processing instructions, verify data sources and resulting reports. Create online changes to vendor records and review the report to confirm vendor changes were captured.

Conclusion: Vendor Changes Report did not capture changes made to vendor names.

Discussion: The Vendor Changes Report acts as an audit log to identify changes to vendor names and addresses. The report is available for agency personnel to monitor changes. The report had not been capturing vendor name changes since February 2001, when a software upgrade overwrote the file. Upon notification, SSB personnel corrected the program instructions.

Chapter III - Assurance Over Operations

General Ledger

The General Ledger is the primary set of financial records for the state. General Ledger testing included examining existing processes and changes since the prior audit to information inputs, processing instructions and the resulting activity reports.

Test: Identify changes to General Ledger journal input sources and controls.

Method: Extract the active journal sources from the finance database and identify journal sources added since the prior audit. Review input process to identify controls.

Conclusion: One additional source was identified.

Discussion: IMPORT is a General Ledger journal source added since the prior audit. An “input source” identifies the point in SABHRS that the transaction originated. The source is key for General Ledger reporting purposes, as it also identifies transactions from other modules or systems. SSB authorizes agency staff to use IMPORT as a source for General Ledger processing when agencies create numerous and repetitive journal entries. While authority to load files is restricted, anyone can create the transaction file to be loaded for SABHRS processing. Therefore, the control over IMPORT file creation and contents exists not with SABHRS but at the agency.

Test: General Ledger processes are operating as described by SABHRS management.

Method: Extract the processing instructions to validate database references and confirm the program instructions are consistent with SABHRS management description. Validate the Entitywide Trial Balance by querying the finance database and comparing the resulting fund and account activity and balances to the Entitywide Trial Balance fund and account activity and balances.

Chapter III - Assurance Over Operations

Conclusion: No exceptions noted.

Discussion: GASB 34 is a recent change in accounting principle. The SABHRS Entitywide Trial Balance is a new report created to provide SABHRS users with a means of monitoring GASB 34 transactions.

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Test: Non-budgeted transaction fields are validated before posting to the General Ledger.

Method: Extract General Ledger posting rules and confirm data validation applies to SABHRS non-budgeted transactions.

Conclusion: No exceptions noted.

Discussion: SABHRS information users should be aware that in certain uncommon circumstances SABHRS will not prevent non-budgeted transactions from posting with improper budget details. SABHRS rules ensure that budgeted and non-budgeted transaction data are validated before posting to the General Ledger. However, budgeted and non-budgeted data are treated differently in that budgeted data is validated against an agency's budget rules. Since non-budgeted data bypass these additional checks, budgeted data erroneously included in the transaction will not be checked against an agency's rules and will post to the General Ledger. The responsibility and control for creating and approving an accurate transaction exists at the agency level. To assist agency personnel, SABHRS does have reports available that agency personnel responsible for monitoring budgeted and non-budgeted transaction activities, can use to ensure transactions properly post to the General Ledger. Beginning in August 2002, non-budgeted transactions are linked to the agency to limit transactions posting with improper details.

Chapter III - Assurance Over Operations

Time and Labor

The Time and Labor module processes time entered by or on behalf of employees. The state uses an internal network (intranet) for those agencies currently participating, for online time entry.

Test: Intranet web-based time entry controls operate to prevent employees from altering their time reporting once a supervisor has approved their time report.

Method: Extract the instructions that operate the state's web-based time reporting process. Review instructions to identify existing controls that prevent an employee from altering entries to their timesheet once it has been submitted for supervisor approval. Observe an attempt to change reported time and ensure supervisor review is required prior to change in time reported.

Conclusion: No exceptions noted.

Payroll

The Payroll module functionality provides real-time data editing and validation to ensure accuracy of payroll.

Test: Payroll posting is complete and accurate.

Method: Extract and review SSB modifications to the PeopleSoft processing instructions for posting payroll to the General Ledger. Confirm modifications are consistent with the operation and management understanding of the posting process.

Conclusion: No exceptions noted.

Test: Ensure database tables contain the correct contribution rates for Unemployment Insurance (UI), Worker's Compensation, and state retirement systems.

Method: Extract UI contribution rates, retirement system rates and worker's compensation rates. Compare database rates with state statute or state agency responsible for administering the rates.

Chapter III - Assurance Over Operations

Conclusion: SABHRS Human Resource (HR) database contains incorrect UI rates.

Discussion: SABHRS HR calculates employer payroll contributions for state agencies. UI is one type of employer contribution calculation performed for each two-week pay period. The accuracy of the calculation process is dependent on referencing to correct rates in the HR database. UI contribution rates for employers can change and are usually updated annually. Department of Revenue is responsible for providing employers, including the State Personnel Division (SPD), with current UI rates. SPD notifies appropriate SABHRS staff to install the current rates in the database. SPD personnel stated the Department of Revenue did not notify them of any rate changes for fiscal years 2001, 2002, or 2003. Therefore, the UI tax rates have not been updated in SABHRS since fiscal year 2001.

Effect: Department of Administration, State Personnel Division, personnel said that state agencies overpaid UI by approximately \$127,000 over the past three years.

Recommendation #1

We recommend:

- A. State Personnel Division acquire the current UI rates from Department of Revenue and direct SABHRS staff to install these rates.**
- B. State Personnel Division work with Department of Revenue to credit UI overpayments to the overcharged agencies.**
- C. State Personnel Division develop a procedure to ensure timely updates of employer payroll contribution rates.**

Test: HR retirement contribution reports pull data from the correct sources.

Chapter III - Assurance Over Operations

Method: Review HR retirement contributions report instructions and interview SSB HR programmer to confirm that proper database information and periods are being accessed for retirement system reporting. Note: HR Retirements Reports are generated based on date paid or date of paycheck; instead of pay period end date or date the leave was earned.

Conclusion: No exceptions noted.

Test: Leave Balance Liability Reports are accurate.

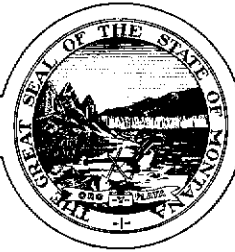
Method: Extract Fiscal Leave Taken and Leave Liability reports and review SABHRS processing instructions.

Conclusion: No exceptions noted.

--END OF REPORT--

Department Response

DEPARTMENT OF ADMINISTRATION
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JUDY MARTZ, GOVERNOR

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November 25, 2002

Mr. Scott A. Seacat, Legislative Auditor
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RECEIVED
NOV 28 2002
LEGISLATIVE DIV.

Dear Mr. Seacat:

We have reviewed the recommendations pertaining to the Statewide Accounting, Budgeting and Human Resource System (SABHRS) audit conducted for the fiscal year ended June 30, 2002. Our response to the recommendations follows.

RECOMMENDATION #1:

- A. WE RECOMMEND THE STATE PERSONNEL DIVISION ACQUIRE THE CURRENT UI RATES FROM DEPARTMENT OF REVENUE AND DIRECT SABHRS STAFF TO INSTALL THESE RATES.
- B. WE RECOMMEND THE STATE PERSONNEL DIVISION WORK WITH DEPARTMENT OF REVENUE TO CREDIT OVERPAYMENTS TO THE OVERCHARGED AGENCIES.
- C. WE RECOMMEND THE STATE PERSONNEL DIVISION DEVELOP AN EFFECTIVE PROCEDURE TO ENSURE TIMELY UPDATES OF EMPLOYER PAYROLL CONTRIBUTION RATES.

Response:

We concur. The State Personnel Division has installed current UI rates, and is working with the Department of Revenue to ensure that overpayments are properly credited to the agencies. The Division has implemented new procedures that will ensure timely updates of employer payroll contribution rates.

We thank you and your staff for conducting the audit in a professional manner.

Sincerely,

A handwritten signature in cursive script, appearing to read "Scott Darkenwald".

SCOTT DARKENWALD
Director